

DHCD Progress Report On Management Improvements and Program Activities

The following report provides updated information on initiatives underway at the Department of Housing and Community Development (DHCD). It also summarizes DHCD's plans for managing FY 2003 budgeted dollars to meet the City's goals and those of the U.S. Department of Housing and Urban Development to provide affordable housing and economic activity that benefit low and moderate-income residents.

The report contains three sections: Program Goals and Activities, Investment Strategies, and Management Initiatives. Attached to this memorandum is a copy of the Department's FY 2002 spending plan.

In developing our plans, DHCD has been guided by HUD's national objectives and program guidelines, and by an extensive consultative process including: DHCD public hearings, Neighborhood Action city-wide hearings, Neighborhood Services priorities, the Mayor's Community-based Strategic Plan and recommendations from the Council of the District of Columbia.

I. Program Goals and Activities:

DHCD implements the HUD-mandated goals of providing decent housing, a suitable living environment, and expanded economic opportunities for low-to-moderate income residents by offering programs that serve the needs of residents as expressed at the needs hearing conducted by the Department.

The Department's programs form the strategies to achieve its own broad-based goals:

- Increasing home ownership opportunities;
- Increasing the supply of affordable housing for renters and owners; and
- Supporting neighborhood revitalization with economic opportunity for low-to-moderate income residents.

1. Increasing Home Ownership Opportunities

Promotion of home ownership is an essential ingredient in the city's housing plan. The District of Columbia still lags behind the national home ownership rate, although inroads have been made.

Home ownership opportunities are extended to very low and low-income residents through the use of HOME funds in partnership with the D.C. Housing Finance Agency. Increasing home ownership provides several benefits:

- Decent housing;
- The foundation for building individuals' long-term financial health;
- Stabilization through owner involvement in the social and business life of the neighborhood, and
- An expanded revenue base to fund additional community needs.

DHCD's Home Purchase Assistance Program (HPAP) is a prime vehicle for increasing ownership opportunities for D.C. residents. Included in the program are initiatives to specifically attract government employees and police officers to neighborhood home ownership. A new initiative is under development to retain HPAP homeowners in the city by providing loans for a second "Step Up" home as families outgrow their first homes.

For FY 2003, HPAP has a budget of \$11.3 million, targeted to provide 536 loans. In addition, underlying these housing programs is a support network of Community Based Organizations (CBOs) that provide residents with counseling services, assistance in applying for DHCD loans, housing location services and homeowner training.

2. Increasing the Supply of Affordable Housing for Renters and Owners

There are two parts of our strategy to provide decent housing and an affordable living environment for low- to moderate-income residents: increasing the supply of affordable housing through the preservation and rehabilitation of existing housing stock, and support for new housing construction.

Because Washington, D.C. is a "built-up" city, preserving and restoring existing housing is essential to the city's housing strategy. The Mayor is developing new programmatic approaches to increase affordable housing. The Housing Act of 2002 contains provisions that, when implemented, will return more abandoned, tax-delinquent properties to productive homeowner status and develop an incentive strategy for owners to retain Section 8 housing for tenants.

New single-family housing has been developed over the past few years in neighborhoods east of the Anacostia River, which have lacked development of any kind for several decades. With so much of the city's land occupied and with housing costs rising, there are only a couple of significant large-scale new housing developments anticipated; D.C. Housing Authority (DCHA) Hope VI projects and the single-family home component of the development at Camp Simms. However, there are in-fill opportunities on smaller parcels.

For FY 2003, DHCD has budgeted \$10.2 million for the Multi-Family Rehabilitation Program to rehabilitate 1,054 units of multi-family housing; and has budgeted \$2.6 million to provide 55 Single-Family Rehabilitation loans. We have also budgeted \$3.6 million for the Construction Assistance Program targeted at assisting in constructing 408 new housing units.

3. Supporting Neighborhood Revitalization with Economic Opportunity for Low-to-Moderate Income Residents.

Through its housing development projects and community-based organization projects, DHCD supports the creation of jobs for its low-to-moderate income residents.

In economic development, the Department focuses its attention on retaining the city's employment base and expanding opportunities for job and income-creating business ventures. Well-paying jobs are essential to provide the income necessary to obtain decent and affordable housing. They provide the base for balanced and stable neighborhoods, which strengthen the tax base and foster more viable communities. DHCD supports stabilization and revitalization through:

- Assisting development of local community and commercial facilities,
- Supporting business façade and infrastructure improvement programs,
- Supporting community planning activities, and
- Supporting community based organizations and community development corporations in programs to improve access to job training and employment, local business improvements and youth programs.

A key element in meeting this goal is the formation of partnerships with community-based organizations (CBOs), Community Development Corporations (CDCs) and other non-profit organizations. Collectively, these non-profit organizations have been able to identify and carry out local affordable housing and business support programs; to develop effective relationships and communication channels within the communities; and to provide a vehicle within neighborhoods through which the residents can provide input and participate in decisions affecting their communities.

DHCD supports these efforts through the Neighborhood Development Assistance Program (NDAP). In FY 2002, NDAP has undergone extensive revision to assure that all federal funds supporting community projects are directly tied to eligible program and project delivery activities. Because it is critical to the accomplishment of DHCD's goals that our partnering CBOs, CDCs and other non-profit organizations demonstrate organizational and financial competence and the capacity to manage viable projects, we have tightened performance and financial reporting requirements and strengthened our monitoring protocols. We also have tied funding awards to the accomplishment of specific Administration priorities, to ensure that our partners are working in concert with the City. Twelve community-based organizations were selected for NDAP funding in FY 2002 to carry out projects to provide job training, infrastructure and façade improvements, small business technical assistance and housing counseling.

For FY 2003, DHCD is budgeting \$4.9 million to support programs at the neighborhood level that produce affordable housing, neighborhood revitalization and that generate effective economic development activities. DHCD will look for new and creative ways to combine public and private resources for the most effective delivery of community-based programs.

II: Strategic Investment Strategies:

A. Notice of Funding Availability (NOFA):

To meet the broad program goals outlined above, and to target its funds to areas of greatest need and impact, DHCD is preparing to issue a FY 2003 Notice of Funding Availability (NOFA) by the third quarter of FY 2002. The NOFA will make available funds from the federal CDBG and HOME programs, and from the Housing Production Trust Fund (see below). Furthermore, the Department will target its funding to align with the Administration's development priorities as reflected in the Mayor's Citywide Strategic Plan. DHCD is currently working with the Deputy Mayor for Planning and Economic Development to determine the specifics of the NOFA offering.

Through the Neighborhood Action community-based planning process, citizens identified neighborhoods where concerted city action was needed to:

- Halt deterioration and create stability,
- Prevent displacement caused by prevailing market forces,
- Enhance areas where stabilization has begun, and
- Maintain stable and thriving areas to attract new residents and businesses.

The Administration has identified 12 areas for targeted investment to meet community objectives:

1. Columbia Heights	7. Pennsylvania Avenue / Fairlawn
2. Shaw	8. Minnesota / Benning
3. Howard University / LeDroit Park	9. Anacostia
4. Trinidad / Ivy City	10. Congress Heights
5. H Street, N.E.	11. Bellevue
6. Near Southeast	12. Takoma

These areas meet the characteristics of the priority areas outlined in the District's FY 2001-2005 Consolidated Strategic Plan, which targeted investment to:

- Capital Communities, where crime, vacant housing and the absence of retail, educational and social enrichment opportunities require long-term sustained investment;
- Emerging Growth Communities, where development momentum has been established, but where further periodic investment is needed;
- Neighborhoods abutting government centers, Metro stations and Convention Center;
- Neighborhoods in which there is a dense concentration of tax-delinquent, vacant, abandoned and underutilized housing and commercial facilities; and
- Gateways to the city--their first impression sets the tone for visitors' interaction with the city.

In addition to these areas are two **Neighborhood Revitalization Strategy Areas** which can also be targeted in the NOFA:

1. Georgia Avenue NRSA

In 1999, DHCD submitted an application for designation of the Georgia Avenue Corridor as a Neighborhood Revitalization Strategy Area (NRSA) to the U.S. Department of Housing and Urban Development, in conjunction with the District of Columbia Fiscal Year 2000 Consolidated Plan.

The city proposed to address economic development focused along the almost 5-mile corridor by approaching it as a single linear neighborhood. The Georgia Avenue Corridor has a distinct identity because it is one of the major north-to-south transportation routes connecting Maryland to downtown D.C. The targeted area includes the 39 census blocks that abut Georgia Avenue from Florida Avenue, N.W. to Eastern Avenue, N.W. Portions of the lower end of the strategy area already qualified as an NRSA because of their federal designations as Enterprise Communities.

The NRSA development strategies include job creation, housing development, employment and entrepreneurial training and infrastructure development. A combination of projects and program activities has been identified in the NRSA supporting these four categories to serve as the core tools for revitalizing the Corridor.

The performance measures for employment are to create 50 new jobs each year, open 1 new job training center by FY 2003, create 5 new businesses each year, and attract 1 major employer each year. For housing, they are to increase homeownership by 1% and to rehabilitate 20 single family houses and 20 multifamily properties by 2005. The measures also include renovation of 2 community parks, installation of 50 historical markers, and improvements to the Gateway at Silver Spring.

2. Carver Terrace/Langston Terrace/Ivy City/Trinidad NRSA

DHCD applied to HUD for the designation of the Carver/Langston Terrace/Ivy City/Trinidad (Carver NSRA) communities as a Neighborhood Revitalization Strategy Area (NRSA) in August 2000. The application was approved in October 2000. The Carver NRSA includes five census tracts defined by New York Avenue, Florida Avenue and Bladensburg Road, and includes Galludet University and the Farmer's Market, as well as major residential and light industrial developments.

The NRSA development strategy includes job creation, housing development, employment and entrepreneurial training, and infrastructure development. A comprehensive set of projects and programs has been developed around these four areas to serve as the core tools for revitalizing the neighborhood.

The performance measures for job creation are to create 25 new jobs each year and start 3 new businesses each year. Jobs created will help break the cycle of poverty, teach new skills and give residents the ability to buy and maintain their homes.

The performance measures for housing and community facility development over the NRSA period are: creation of affordable/mixed-income housing units for 600 families over five years; construction of one 80-slot day care center; construction of one birthing and well-care center for low income residents; and development of three computer learning centers.

B. Housing Production Trust Fund (HPTF): Proposed Spending Plan¹

The Department of Housing and Community Development (DHCD) administers the Housing Production Trust Fund (HPTF or Fund) for the District of Columbia. The Fund, which in previous years had been funded with federal dollars but had experienced little activity, has been revitalized through the sale of the DOES building on Pennsylvania Avenue to the Newseum and through the Housing Act of 2002. The sale of the DOES building provided \$25 million to re-capitalize the Fund, and the Housing Act of 2002 provides an annual contribution of 15% of the City's deed recordation taxes and 15% of the real estate transfer taxes.¹ The Fund now is capitalized purely with local dollars that carry no federal use requirements.

The FY 2003 contribution will be \$11.5 million. Added to the approximately \$22.5 million remaining from the initial Newseum deposit, the City has an estimated \$34 million to spend on affordable housing in addition to its federal funds.

¹ Or an amount to be determined through amendment to the Act.

Spending Requirements

Under the provisions in the Housing Act of 2002:

- 40% of the HPTF funds must benefit households with incomes between 0% and 30% of the area median income,
- 40% of the funds must benefit households with incomes between 31% and 50% of the area median income, and
- 50% of the funds must be used for the production of rental housing.

HPTF may account for up to half of a project's total development costs. (See Page 9 for a list of eligible uses.)

Proposed Spending for FY 2003

DHCD proposes to make one third of the funds and interest – \$12 million – available in FY 2003. *Because this is the first year of the program, and there is no Housing Production Trust Fund Advisory Board in place, DHCD is offering a plan only to spend the new money (FY 2003 contribution and interest earnings) in FY 2003.* As the community (represented by the Board) and DHCD assess their experience with the Fund over the first fiscal year of operation, the Board will be better positioned to establish spending and production goals for the remainder of the Fund balance over subsequent years.

The District does not plan to make additional HPTF funding available during FY 2002 because the city is being mandated by the U.S. Department of Housing and Urban Development to meet its Community Development Block Grant spending targets for FY 2002. The District must reach a certain level of expenditure by July 31, 2002 to avoid a reduction in future funding. Thus, all efforts are being directed toward meeting this target and putting organizational improvements in place to prepare for the increased deal flow that we anticipate with the implementation of the Housing Production Trust Fund.

Targeting

DHCD will target the funds in a way that:

- 1) Satisfies the parameters set forth in the legislation, and
- 2) Meets pressing needs as expressed by members of the community.

Use 1: Preservation of Expiring Federal Subsidies

The District could lose up to 10,000 units of affordable, federally subsidized rental housing over the next 5 years. HPTF will support tenant or third-party nonprofit purchase and rehabilitation of multifamily buildings with expiring (Section 8) federal subsidy contracts, and of other privately-owned property under the Tenant Assistance and First Right to Purchase Programs, to be maintained as long-term affordable rental or ownership housing.

Proposed funding: \$6.25 million

Use 2: Development of Barrier-free and Other Special Needs Housing

The District faces a shortage of barrier-free housing units, as well as housing units for persons with other special needs (formerly homeless, chronic mental illness, etc.). HPTF will be used to support rental and ownership housing development that specifically meets these needs.

Proposed funding: \$3.00 million

Use 3: Homestead Housing Preservation Program Loans and Title Services

Under the Housing Act of 2002, HPTF is to be used to provide second mortgages to low- and very low-income Homesteaders, and to pay for the cost of contracted title search and clearance services.

Proposed funding: \$1.25 million

Use 4: Single-Family Rehabilitation Loans

Single-family rehabilitation loans can assist low income and elderly persons in bringing their homes into compliance with District building codes so that they can remain in their neighborhoods. HPTF will be used to augment the District's existing programs and pay for some of these loans.

Proposed funding: \$1.50 million

The proposed funding levels may be increased (to exceed the initial \$12 million allocation) in the face of higher demand and evidence of capacity within the development community to absorb more HPTF dollars and deliver more units.

Spending Issues

DHCD must use HPTF in a way that augments our current supply of funding without supplanting it. The U.S. Department of Housing and Urban Development requires that its grantees expend a certain amount of their CDBG allocations each year and also requires grantees to expend their HOME allocations within five years.

To insure that HPTF funds do not substitute for CDBG, DHCD will recommend setting up a separate program administrative structure for the Fund that focuses on its specific target audiences and appropriate owner/renter projects. Funds for the purchase and rehabilitation of multifamily properties and for development of barrier-free and other special needs housing will be made available through a Notice of Funds Availability (NOFA). The Department also will explore ways to combine existing federally funded programs that address the target audiences with the HPTF. One such proposal is to increase the funding of the Home Ownership Developers Incentive Fund (HODIF) and the Housing Finance for Elderly, Dependent and Disabled Program (HoFEDD)² to be used in conjunction with HPTF-funded projects.

Out-year Projects

DHCD anticipates that it will begin FY 2004 with approximately \$22 million in the body of the Fund, plus interest earnings and the FY 2004 contribution. If owners of federally subsidized rental buildings withdraw even one-third of their units from affordable use as their contracts expire over the next five years, the District will lose nearly 3,400 units. The cost of preserving these units – estimated to be least \$80,000 per unit for acquisition and rehabilitation – could consume \$272 million over five years. *HPTF funding will be a critical component to preserving this affordable housing resource.*

DHCD will work with the Housing Production Trust Fund Advisory Board to craft an out-year spending plan that takes into account all of the District's housing needs.

² HODIF provides grants to non-profit developers to help them lower the sales price of units they develop. HoFEDD provides assistance for acquisition and rehabilitation for non-profit or for-profit applicants who will develop housing for a variety of special needs households.

HPTF Eligible Uses

1. Pre-development loans for nonprofit housing developers;
2. Grants for architectural designs for adaptive re-use of previously nonresidential structures;
3. Loans to develop housing and provide housing services for low- and very low-income elderly persons who have special needs;
4. Bridge loans and gap financing to reduce up-front costs and costs of residential development and to keep a housing project in operation, if circumstances change adversely during development;
5. Loans for first-effort model projects;
6. Financing for the construction of new housing, or rehabilitation or preservation of existing housing;
7. Financing for site acquisition, construction loan guarantees, collateral, or operating capital;
8. Loans or grants to finance on-site child development facilities for proposed housing or commercial development projects;
9. Loans authorized through the Homestead Housing Preservation Program;
10. Payments to a person contracted to perform title search and clearance services for the Homestead Housing Preservation Program;
11. Other loans and grants for housing production determined by the Department to be consistent with the HPTF purposes, and
12. Funds for the administration of the Fund, not to exceed in a fiscal year 5% of the funds expended from the Fund during the fiscal year.

III. Management and Monitoring Initiatives:

When I became Director of DHCD on July 31, 2001, I identified a number of Department deficiencies and developed my initial plans to improve management and operations. I shared this information with the Council in the material transmitted as part of the FY 2002 Budget Oversight process. This section updates previous reports.

Among the deficiencies cited were:

- Non-compliance with federal requirements,
- Insufficient monitoring of internal program operations,
- Insufficient external monitoring of sub-recipients,
- A lack of consistent direction or philosophy leading to management by crisis,
- Inadequate or non-existent workforce standards and measures,
- Missing evaluations and training for staff,
- Outdated or missing operating procedures for divisions and programs,
- Inadequate coordination and accountability between programs and finances, and
- Poor communications—internally and externally

The deficiencies discovered at DHCD did not occur overnight. They are long standing and require concerted, focused attention. In order to make real progress in addressing the housing and community development needs of our citizens, the Department of Housing and Community Development must be functioning at a highly professional level.

I have hired new managers, including a Chief Operating Officer, Director of Human Resources, Training Specialist, Director of Program Monitoring, new Director of Residential and Community Services and new Director of Development Finance to assist me with on-going improvements to the capacities and capabilities of our people, our structures and our systems.

I am pleased to report that, through the efforts of new managers, existing managers and internal realignments, we have made considerable progress in correcting past deficiencies and in laying the groundwork for a professional caliber organization.

In Program Monitoring and HUD Compliance, we have:

- Created a Department spending plan with monthly goals to meet the HUD's July 31 CDBG spending requirements,
- Obtained (through HUD) technical assistance for program personnel in HOME-funded multi-family projects, started developing a long-term monitoring guide for HOME funded projects, and will complete training on the guide by the end of June,
- Received, as a result of the HOME-funded multi-family technical assistance, approval from HUD for additional technical assistance to develop loan/grant products for development projects, a Notice of Fund Availability (NOFA) for fiscal year 2003 funding for those products, and procedures for reviewing proposals/applications. This product design will streamline HOME and CDBG-funded multi-family rental development processes, and
- Contracted to eliminate an inherited backlog in required environmental reviews and decreased the Environmental Review inventory.

In Internal and External Monitoring, we :

- Started the contracting process for a review of the Emergency Shelter Grant (ESG), and the Low Income Housing Tax Credit Program,
- Initiated internal monitoring of DHCD operations and external monitoring of sub-recipients,
- Completed a review and issued a report of the Construction Assistance Program. Review objectives included ensuring financial, regulatory and project performance compliance, such as proper file documentation procedures, and consistent record keeping.
- Are conducting the monitoring review of the Neighborhood Development Assistance Program (NDAP). External monitoring includes financial reports tying all expenditures to eligible activities, monthly site visits by DHCD project managers and quarterly visits that include the Office of Program Monitoring.
- Established a tracking database to monitor DHCD corrective actions in response to internal and external audits and monitoring reviews, and
- Led an interagency coordination mechanism (DCHA and DOH) to develop a citywide implementation plan to comply with lead-based paint requirements. Lead based paint procedures for Single family rehabilitation have been drafted, and multi-family procedures are in process.

In Residential and Community Services, we have:

- Revamped the NDAP Program to comply with all HUD requirements to create performance measures and financial accountability for all sub-recipients (CBOs, CDCs, and other non-profits). We have established regular site visits and reports that tie costs to specific CDBG-eligible activities, as well as monitoring visits by the OPM.
- Conducted a thorough review of the Single-Family Home Rehabilitation Program and started to improve the program by:
- Working to develop a Memorandum of Understanding (MOU) with another government agency to clear a backlog in already-approved rehab construction,
- Establishing plans for a “Contractor Fair” to address misunderstandings about program operations and funding, and to attract contractors to participate in the rehab program, and
- Increasing internal capacity by strengthening internal procedures and controls and recruiting staff with significant expertise.
- Started a Façade Improvement outreach and education program directed at neighborhood small businesses, and
- Initiated the replenishing of the Homestead Housing Preservation Program inventory of properties to prepare for a Homestead Lottery in late calendar year 2002 or early 2003.

In Improving Development Finance and Financial Management, we have: (in addition to items already mentioned)

- Managed the transfer of RLA properties and records to the NCRC,
- Hired a new director and advertised for two underwriters for the Development Finance Division,
- Aligned development decisions with funding sources, internal financial procedures and HUD spending timelines and assigned finance staff to work directly with development staff on projects,
- Arranged for training sessions for project managers leading to professional certification in underwriting,
- Tied accountability directly to project managers, for adherence to the budget, spending plan and HUD requirements,
- Created (and monitor) a weekly and monthly spending plan specifically referencing the development Pipeline, program sub-recipients, and HUD spending requirements, and
- Implemented a department-wide data management system (HDS) to improve the collection, retention and retrieval of all program data, to transfer data to the HUD IDIS system, and to facilitate department reports. Training in HDS has been provided to all appropriate staff.

In Human Resource Development and Accountability, we have made significant progress, however, we need assistance in relaxing personnel rules to permit expeditious staffing decisions to make the broad changes rightfully demanded by the Mayor and the Council, and required to meet federal requirements. Human Resource initiatives completed or underway include:

- Developed a comprehensive, targeted development program for the Department,
- Prepared Individual Performance Plans (IPPs) and Individual Development Plans (IDPs) for all managers/supervisors,
- Provided employees with accurate positions descriptions and new performance standards based on these descriptions for non-supervisory positions,
- Implemented a Labor-Management Partnership Committee facilitated by the Federal Mediation and Conciliation Service,
- Implemented regular all-staff briefings on program and financial management of the department,
- Enrolled all project managers in an underwriting certification program through the National Development Council,
- Provided Ethics training and Fair Housing training,
- Conducted customer service training

- Supervised training in the HDS system for all divisions,
- Implemented an aggressive recruitment plan to fill vital positions, and
- Inaugurated an on-going notification system for internal and external training opportunities for all levels of staff.

Initiatives underway or scheduled to begin:

Implementing:

- Department-wide ADA training,
- Leadership Program,
- Department-wide performance management program,
- Desktop computer technology training,
- Teambuilding
- MSS training
- Stress management training
- Performance-Based Budgeting training

In Information and Technology, we have:

- Implemented the new data management system (HDS) which will permit DHCD to integrate project/production data, control program management, perform underwriting and analyze “what-if” situations *through the system*,
- Trained division staffs and managers in system applications, and
- Started exploring options for a web-based development application process.

In Communications and Outreach, we have:

- Moved toward completion of the DHCD Program information video (scheduled for end-of-May release),
- Started an ambitious “Ambassador” program of direct outreach by DHCD staff to ANCs and community organizations; with a component of program recipient Ambassadors, (April and May)
- Increased DHCD informational exposures in print and electronic media, and
- Started to revise and update DHCD informational brochures and other materials.

In Strategic Planning and Research Analysis:

- We are re-aligning a separate unit to focus on improving integration of internal operations and budget with land-use plans, the city-wide strategic plan, needs hearings and census data.